

REBUTTAL TESTIMONY

of

**Dianna Hathhorn
Accountant**

**Accounting Department
Financial Analysis Division
Illinois Commerce Commission**

Request for Increase in Water and Sewer Rates

**Cedar Bluff Utilities, Inc.
Apple Canyon Utility Company
Charmar Water Company
Cherry Hill Water Company
Northern Hills Water & Sewer Company**

Docket Nos. 03-0398/0399/0400/0401/0402 Consolidated

October 30, 2003

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5
6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes, my direct testimony is labeled ICC Staff Exhibit 1.0 in dockets 03-0399, 03-
8 0401, and 03-0402 and ICC Staff Exhibit 2.0 in dockets 03-0398 and 03-0400.

9
10 Purpose of Testimony

11 Q. What is the purpose of this testimony?

12 A. I am presenting the rebuttal Staff revenue requirement schedules of Apple
13 Canyon Utility Company, Cherry Hill Water Company, and Northern Hills Water &
14 Sewer Company, based upon Utilities Inc.'s ("UI" or "Company") rebuttal
15 testimony. These schedules are based upon the positions of UI in its rebuttal
16 testimony, and Staff's adjustments thereto.

17
18 I am also presenting testimony concerning health insurance expense, rate case
19 expense, monthly billing expense, insurance claims amortization, and a new
20 sewer regulatory fee.

21
22 Q. Are you sponsoring any schedules with your testimony?

23 A. Yes. I prepared the following schedules for the Company, which show data as
24 of, or for the test year ending December 31, 2002:

25 Revenue Requirement Schedules

26 Schedule 7.1 - Statement of Operating Income with Adjustments

27 Schedule 7.2 - Adjustments to Operating Income

28 Schedule 7.3 - Rate Base

29 Schedule 7.4 - Adjustments to Rate Base

30 Schedule 7.5 - Interest Synchronization Adjustment

31 Schedule 7.6 - Gross Revenue Conversion Factor

32

33 Adjustment Schedules

34 Schedule 7.7- Adjustment to Health Insurance Expense

35 Schedule 7.8- Adjustment to Rate Case Expense

36 Schedule 7.9- Adjustment to Remove Monthly Billing Expense

37 Schedule 7.10- Adjustment to Amortize Insurance Claim Expense

38 Schedule 7.11 CB and Schedule 7.9 NH-S- Adjustment for New IEPA Fee

39

40 Q. What is the purpose of the letters that follow the Schedule numbers?

41 A. The letters identify the UI operating subsidiaries as follows:

42 CB Cedar Bluff Utilities, Inc.

43 AC Apple Canyon Utility Company

44 C Charmar Water Company

45 CH Cherry Hill Water Company

NH-S Northern Hills Water & Sewer Company-Sewer Schedules

NH-W Northern Hills Water & Sewer Company-Water Schedules

Thus, Schedule 7.1CB provides information for Cedar Bluff Utilities, Inc. This designation is a part of each schedule number to ease identification of which companies are affected by specific adjustments.

Revenue Requirement Schedules

Q. Please describe Schedule 7.1, Statement of Operating Income with Adjustments.

A. Schedule 7.1, is the same as ICC Staff Exhibit 1.0, Schedule 1.1, described in Docket Nos. 03-0399, 03-0401, and 03-0402, ICC Staff Exhibit 1.0, except that it incorporates the Company rebuttal position, as well as Staff's rebuttal positions.

Q. Please describe Schedule 7.2, Adjustments to Operating Income.

A. Schedule 7.2 identifies Staff's adjustment to Operating Income. The source of each adjustment is shown in the heading of each column. The final column is carried forward to Schedule 7.1, Column (C).

Q. Please describe Schedule 7.3, Rate Base.

A. Schedule 7.3 is the same as ICC Staff Exhibit 1.0, Schedule 1.3 described in Docket Nos. 03-0399, 03-0401, and 03-0402, ICC Staff Exhibit 1.0, except that it incorporates the Company rebuttal position, as well as Staff's rebuttal positions.

68 Q. Please describe Schedule 7.4, Adjustments to Rate Base.

69 A. Schedule 7.4 identifies Staff's adjustments to rate base. The source of each
70 adjustment is shown in the heading of each column. Column (I) is carried
71 forward to Schedule 7.3, Column (C).

72

73 Q. Please describe Schedule 7.5, Interest Synchronization Adjustment.

74 A. Schedule 7.5 uses the same concept as ICC Staff Exhibit 1.0, Schedule 1.5. The
75 theory is discussed in Docket Nos. 03-0399, 03-0401, and 03-0402, ICC Staff
76 Exhibit 1.0.

77

78 Q. Please describe Schedule 7.6, Gross Revenue Conversion Factor.

79 A. Schedule 7.6 uses the same concept as ICC Staff Exhibit 1.0, Schedule 1.6. The
80 theory is discussed in Docket Nos. 03-0399, 03-0401, and 03-0402, ICC Staff
81 Exhibit 1.0.

82

83 Adjustment to Health Insurance Expense

84 Q. Please explain your Adjustment to Health Insurance Expense, in Schedule 7.7.

85 A. Schedule 7.7, for each operating subsidiary, reflects updated expense
86 information the Company provided in its rebuttal testimony. The Company's
87 rebuttal information, from 8/30/2003, is more current than the information, from
88 6/30/03, used in my direct testimony. I based the adjustment in my rebuttal
89 testimony on this updated information. It is my understanding that Staff and the
90 Company are now in agreement on this issue.

91

92 Adjustment to Rate Case Expense

93 Q. Please explain your Adjustment to Rate Case Expense, in Schedule 7.8.

94 A. Schedule 7.8, for each operating subsidiary, reflects my proposed adjustment to
95 amortize the Company's rate case expense over a five-year period, rather than
96 the three-year period proposed by the Company. I updated my rebuttal
97 adjustment to reflect additional rate case expense for which the Company has
98 provided support.

99

100 Q. The Company states it fully expects to file rate cases for all of its operating
101 subsidiaries within a three to four year cycle. Does the Company's prior rate
102 case history support a three-year amortization period?

103 A. No. The most recent rate proceedings for the operating subsidiaries are as
104 follows:

- 105 • Cedar Bluff 1986 Short Form Proceeding
- 106 • Apple Canyon Docket No. 92-0401
- 107 • Cherry Hill Docket No. 94-0368
- 108 • Northern Hills Docket No. 98-0045

109 The length of time since the last rate case for each operating subsidiary is
110 significant. Thus, the Company's past practices serve to undermine its proposal
111 to use a three-year amortization period in the instant proceeding.

112

Q. The Company states that, with the increase in certain of its rate case expenses, it would not be unexpected for the Company to file for a rate case prior to the expenses for this proceeding being fully amortized. Do you have any comments regarding this scenario?

A. The Commission's current practice is to allow a utility to include any unamortized rate case expense from its prior rate case as a component of rate case expense to be amortized in the next rate case. However, each case must be evaluated on its own merits.

Adjustment to Remove Monthly Billing Expense

Q. Please explain your Adjustment to Remove Monthly Billing Expense, in Schedule 7.9.

A. Schedule 7.9, for Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, and Cherry Hill Water Company, reflects the Company's rebuttal position that it no longer desires to convert to a monthly billing structure. My adjustment removes the expenses the Company included for monthly billing.

Adjustment to Amortize Insurance Claim Expense

Q. Please explain your Adjustment to Amortize Insurance Claim Expense, in Schedule 7.10.

A. Schedule 7.10, for Cedar Bluff Utilities, Inc. only, reflects my proposed adjustment to amortize the Company's insurance claim expense over a five-year

period. This adjustment is identical to my adjustment presented in Docket No. 03-0398, ICC Staff Exhibit 2.0, Schedule 2.7.

- Q. The Company states in its rebuttal testimony that it your adjustment abandons the traditional test year methodology (Docket No. 03-0398, page 4). What is your understanding of the purpose of a test year?
- A. My understanding of the test year is that it should reflect a company's normal, expected, recurring level of expenditures for the period in which rates will be in effect. From my analysis of Cedar Bluff's claim experience, it appears Cedar Bluff will not incur a large insurance claim in each and every year that the sewer rates will be in place. If the insurance claim expense is not amortized, ratepayers will pay for the claim over and over again, until Cedar Bluff revises its rates again. In addition to having no other insurance claims from the period 1998 through 2001 (Docket No. 03-0398, ICC Staff Exhibit 2.0, page 8, lines 156-157), Cedar Bluff has experienced no new claims in year 2003. (Company's response to Staff Data Request DLH-11.04) Therefore, since the insurance claim expense was a one-time expense over a six-year period, it would be inappropriate to include the full amount in rates. I believe a five-year amortization period strikes a balance between ratepayers and the Company and reflects in the test year a normal ongoing amount for insurance claims expenses.

156

157 Adjustment for New IEPA Fee

158 Q. Please explain your Adjustment for New IEPA Fee, in Schedule 7.11 CB and
159 Schedule 7.9 NH-S.

160 A. These schedules, for Cedar Bluff Utilities, Inc. and Northern Hills Water & Sewer
161 Company only, reflect my proposed adjustment to increase taxes other than
162 income for a new Illinois Environmental Protection Agency fee for sewer
163 companies. According to the Company's response to Staff Data Requests DLH-
164 9.01 and DLH-9.02, the new fee, known as the National Pollution Discharge
165 Elimination System ("NPDES") Permit Fee, is effective as of July 1, 2003 and will
166 be assessed annually. Therefore, it is appropriate to increase the Company's
167 revenue requirement for this annual, recurring expense.

168

169 Q. Does this conclude your prepared rebuttal testimony?

170 A. Yes, it does.

Cedar Bluff Utilities, Inc.
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 988	KEW-Exhibit No. 1
2	Pro forma health insurance expense per Company	<u>1,564</u>	Company workpaper e
3	Staff Proposed Adjustment	<u><u>\$ (576)</u></u>	Line 1 - line 2

Cedar Bluff Utilities, Inc.
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,229	Note 1
2	Rate case expense per Company	<u>1,519</u>	Company workpaper d
3	Staff Proposed Adjustment	<u>\$ (290)</u>	Line 1 - line 2
 <u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 3,595	KEW-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u>\$ 6,145</u>	
	5-year amortization period	<u>\$ 1,229</u>	

Cedar Bluff Utilities, Inc.
Adjustment to Remove Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Monthly Billing Expense adjustment per Staff	\$ -	Company rebuttal testimony
2	Monthly Billing Expense adjustment per Company	<u>627</u>	Company workpaper c
3	Staff Proposed Adjustment	<u><u>\$ (627)</u></u>	Line 1 - line 2

Cedar Bluff Utilities, Inc.
Adjustment to Amortize Insurance Claim Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Insurance Claim Expense per Staff	\$ 1,119	Line 5
2	Insurance Claim Expense per Company	<u>5,597</u>	Company response to DLH-5.03
3	Staff Proposed Adjustment	<u><u>\$ (4,478)</u></u>	Line 1 - line 2
4	Total Amount of Insurance Claim	\$ 5,597	Line 2
5	Amortized over 5 years	<u><u>\$ 1,119</u></u>	Line 4 / 5

Cedar Bluff Utilities, Inc.
Adjustment for New IEPA Fee
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Adjustment to Taxes Other Than Income per Staff	\$ 1,500	Company response to DLH-9.02
2	Adjustment to Taxes Other Than Income per Company	-	
3	Staff Proposed Adjustment	<u>\$ 1,500</u>	Line 1 - line 2

Apple Canyon Utility Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Sch. 7.2 AC)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 252,301	\$ -	\$ 252,301	\$ 133,575	\$ (9,735)	\$ 376,141	\$ (105,294)	\$ 270,847
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	252,301	-	252,301	133,575	(9,735)	376,141	(105,294)	270,847
4	Uncollectible Accounts	7,079	-	7,079	3,782	(277)	10,584	(2,980)	7,604
5	Maintenance Expenses	108,844	(16,767)	92,077	-	-	92,077	-	92,077
6	General Expenses	75,271	(11,130)	64,141	-	-	64,141	-	64,141
7	Depreciation	45,326	(166)	45,160	-	-	45,160	-	45,160
8	Amortization of CIAC	(9,878)	-	(9,878)	-	-	(9,878)	-	(9,878)
9	Taxes Other Than Income	14,602	(244)	14,358	401	(401)	14,358	-	14,358
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	241,244	(28,307)	212,937	4,183	(678)	216,442	(2,980)	213,462
17	State Income Tax	(500)	767	267	6,898	(4,640)	2,525	(1,920)	605
18	Federal Income Tax	(9,567)	14,287	4,720	44,563	(4,417)	44,866	(34,134)	10,732
19	Deferred Taxes and ITCs Net	(1,625)	-	(1,625)	-	-	(1,625)	-	(1,625)
20	Total Operating Expenses	229,552	(13,253)	216,299	55,644	(9,735)	262,208	(39,034)	223,174
21	NET OPERATING INCOME	\$ 22,749	\$ 13,253	\$ 36,002	\$ 77,931	\$ -	\$ 113,933	\$ (66,260)	\$ 47,673
22	Staff Rate Base (ICC Staff Exhibit 7.0, Schedule 7.3 AC, Column (d))								\$ 561,521
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 18,546
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								7.35%

Apple Canyon Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 7.5 AC)	Add-On Taxes (Sch. 1.7 AC)	Non-Health Insurance (Sch. 1.8 AC)	Income Taxes (Sch. 1.9 AC)	Health Insurance (Sch. 7.7 AC)	Rate Case Expense (Sch. 7.8 AC)	Monthly Billing (Sch. 7.9 AC)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	(4,212)	(4,212)
6	General Expenses	-	-	(2,132)	-	(5,377)	(144)	(3,477)	(11,130)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(244)	-	-	-	-	-	(244)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(244)	(2,132)	-	(5,377)	(144)	(7,689)	(15,586)
17	State Income Tax	321	5	40	(86)	101	3	144	528
18	Federal Income Tax	5,705	81	711	(861)	1,794	48	2,565	10,043
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	6,026	(158)	(1,381)	(947)	(3,482)	(93)	(4,980)	(5,015)
21	NET OPERATING INCOME	\$ (6,026)	\$ 158	\$ 1,381	\$ 947	\$ 3,482	\$ 93	\$ 4,980	\$ 5,015

Apple Canyon Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Normalize Maintenance Expense (Sch. 1.13 AC)	Unsubst. Plant (Sch. 2.2 AC)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(4,212)	(12,555)	-	-	-	-	-	(16,767)
6	General Expenses	(11,130)	-	-	-	-	-	-	(11,130)
7	Depreciation	-	-	(166)	-	-	-	-	(166)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(244)	-	-	-	-	-	-	(244)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(15,586)	(12,555)	(166)	-	-	-	-	(28,307)
17	State Income Tax	528	236	3	-	-	-	-	767
18	Federal Income Tax	10,043	4,189	55	-	-	-	-	14,287
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(5,015)	(8,130)	(108)	-	-	-	-	(13,253)
21	NET OPERATING INCOME	\$ 5,015	\$ 8,130	\$ 108	\$ -	\$ -	\$ -	\$ -	\$ 13,253

Apple Canyon Utility Company
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 7.4 AC)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 2,075,874	\$ (74,350)	\$ 2,001,524
2	Accumulated Depreciation	(461,236)	(139,472)	(600,708)
3	-	-	-	-
4	Net Plant	1,614,638	(213,822)	1,400,816
5	Additions to Rate Base			
6	Water Service Corporation	45,471	-	45,471
7	Cash Working Capital	24,840	(3,825)	21,015
8	Deferred Tank Maintenance	-	1,942	1,942
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(568,586)	154,386	(414,200)
18	Accumulated Deferred Income Taxes	(44,029)	1,555	(42,474)
19	Unamortized Investment Tax Credits	-	(1,049)	(1,049)
20	Customer Advances for Construction	-	(450,000)	(450,000)
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 1,072,334</u>	<u>\$ (510,813)</u>	<u>\$ 561,521</u>

Apple Canyon Utility Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Pre-1971 ITCs (Sch. 1.14 AC)	Cash Working Capital (Sch. 6.7 AC)	Unsubstantiated Additions (Sch. 2.2 AC)	CIAC (Sch. 2.3 AC)	Customer Advances for Construction (Sch. 2.4 AC)	Plant Held for Future Use (Sch. 2.5 AC)	Previous Orders (Sch. 2.6 AC)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ (5,068)	\$ -	\$ -	\$ (40,534)	\$ (23,019)	\$ (68,621)
2	Accumulated Depreciation	-	-	397	(17,878)	-	-	(121,991)	(139,472)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(4,671)	(17,878)	-	(40,534)	(145,010)	(208,093)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(3,825)	-	-	-	-	-	(3,825)
8	Deferred Tank Maintenance	-	-	-	-	-	-	-	-
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	17,878	-	-	136,508	154,386
18	Accumulated Deferred Income Taxes	-	-	119	-	-	-	1,436	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	-	-	-	-	(450,000)	-	-	(450,000)
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,049)	\$ (3,825)	\$ (4,552)	\$ -	\$ (450,000)	\$ (40,534)	\$ (7,066)	\$ (507,026)

Apple Canyon Utility Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Rate Base Adjustments	Pro Forma Plant (Sch. 2.7 AC)	Tank Painting (Sch. 2.8 AC)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Plant in Service	\$ (68,621)	\$ (5,729)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (74,350)
2	Accumulated Depreciation	(139,472)	-	-	-	-	-	-	(139,472)
3	-	-	-	-	-	-	-	-	-
4	Net Plant	(208,093)	(5,729)	-	-	-	-	-	(213,822)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(3,825)	-	-	-	-	-	-	(3,825)
8	Deferred Tank Maintenance	-	-	1,942	-	-	-	-	1,942
9	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	154,386	-	-	-	-	-	-	154,386
18	Accumulated Deferred Income Taxes	1,555	-	-	-	-	-	-	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	(450,000)	-	-	-	-	-	-	(450,000)
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (507,026)</u>	<u>\$ (5,729)</u>	<u>\$ 1,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (510,813)</u>

Apple Canyon Utility Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 561,521 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	25,212
4	Company Interest Expense	<u>42,313</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(17,101)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	<u>\$ 321</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u><u>\$ 5,705</u></u>

(1) Source: ICC Staff Ex. 7.0, Schedule 7.3 AC, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Apple Canyon Utility Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	2.8300%	<u>0.028300</u>	
3	State Taxable Income		0.971700	1.000000
4	State Income Tax	1.8763%	<u>0.018232</u>	<u>0.018763</u>
5	Federal Taxable Income		0.953468	0.981237
6	Federal Income Tax	34.0000%	<u>0.324179</u>	<u>0.333621</u>
7	Operating Income		<u>0.629289</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.589095</u>	<u>1.544125</u>

Apple Canyon Utility Company
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 10,601	SML-Exhibit No. 1
2	Pro forma health insurance expense per Company	<u>15,978</u>	Company workpaper e
3	Staff Proposed Adjustment	<u><u>\$ (5,377)</u></u>	Line 1 - line 2

Apple Canyon Utility Company
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,462	Note 1
2	Rate case expense per Company	<u>1,606</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (144)</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 4,758	SML-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u><u>\$ 7,308</u></u>	
	5-year amortization period	<u><u>\$ 1,462</u></u>	

Apple Canyon Utility Company
Adjustment to Remove Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expense adjustment per Staff	\$ -	Company rebuttal testimony
2	Maintenance Expense adjustment per Company	<u>4,212</u>	Company Schedule B
3	Staff Proposed Adjustment	<u>\$ (4,212)</u>	Line 1 - line 2
4	General Expense adjustment per Staff	\$ -	Company rebuttal testimony
5	General Expense adjustment per Company	<u>3,477</u>	Company workpaper c
6	Staff Proposed Adjustment	<u>\$ (3,477)</u>	Line 4 - line 5

Charmar Water Company
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 550	KEW-Exhibit No. 1
2	Pro forma health insurance expense per Company	<u>871</u>	Company workpaper e
3	Staff Proposed Adjustment	<u><u>\$ (321)</u></u>	Line 1 - line 2

Charmar Water Company
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,257	Note 1
2	Rate case expense per Company	<u>1,519</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (262)</u></u>	Line 1 - line 2
 <u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 3,734	KEW-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u><u>\$ 6,284</u></u>	
	5-year amortization period	<u><u>\$ 1,257</u></u>	

Charmar Water Company
Adjustment to Remove Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Monthly Billing Expense adjustment per Staff	\$ -	Company rebuttal testimony
2	Monthly Billing Expense adjustment per Company	<u>188</u>	Company workpaper c
3	Staff Proposed Adjustment	<u><u>\$ (188)</u></u>	Line 1 - line 2

Cherry Hill Water Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Sch. 1.2 CH)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 89,054	\$ -	\$ 89,054	\$ 13,500	\$ (470)	\$ 102,084	\$ (8,492)	\$ 93,592
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	89,054	-	89,054	13,500	(470)	102,084	(8,492)	93,592
4	Uncollectible Accounts	95	-	95	15	(1)	109	(9)	100
5	Maintenance Expenses	43,510	(933)	42,577	-	-	42,577	-	42,577
6	General Expenses	19,321	(3,918)	15,403	-	-	15,403	-	15,403
7	Depreciation	5,520	-	5,520	-	-	5,520	-	5,520
8	Amortization of CIAC	(85)	-	(85)	-	-	(85)	-	(85)
9	Taxes Other Than Income	10,973	(89)	10,884	41	(41)	10,884	-	10,884
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	79,334	(4,940)	74,394	56	(42)	74,409	(9)	74,400
17	State Income Tax	130	(15)	115	672	(428)	359	(159)	200
18	Federal Income Tax	1,276	767	2,043	4,343	(1)	6,385	(2,830)	3,555
19	Deferred Taxes and ITCs Net	(613)	(94)	(707)	-	-	(707)	-	(707)
20	Total Operating Expenses	80,127	(4,282)	75,845	5,071	(470)	80,446	(2,998)	77,448
21	NET OPERATING INCOME	\$ 8,927	\$ 4,282	\$ 13,209	\$ 8,429	\$ 0	\$ 21,638	\$ (5,494)	\$ 16,144
22	Staff Rate Base (ICC Staff Exhibit 7.0, Schedule 7.3 CH, Column (d))								\$ 190,158
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 4,538
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								5.10%

Cherry Hill Water Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 7.5 CH)	Add-On Taxes (Sch. 1.7 CH)	Non-Health Insurance (Sch. 1.8 CH)	Income Taxes (Sch. 1.9 CH)	Health Insurance (Sch. 7.7 CH)	Rate Case Expense (Sch. 7.8 CH)	Monthly Billing (Sch. 7.9 CH)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	(933)	(933)
6	General Expenses	-	-	(897)	-	(1,670)	(233)	(1,118)	(3,918)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(89)	-	-	-	-	-	(89)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(89)	(897)	-	(1,670)	(233)	(2,051)	(4,940)
16	Before Income Taxes	-	(89)	(897)	-	(1,670)	(233)	(2,051)	(4,940)
17	State Income Tax	(23)	2	17	(84)	31	4	38	(15)
18	Federal Income Tax	(415)	30	299	(466)	557	78	684	767
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(438)	(57)	(581)	(550)	(1,082)	(151)	(1,329)	(4,188)
21	NET OPERATING INCOME	\$ 438	\$ 57	\$ 581	\$ 550	\$ 1,082	\$ 151	\$ 1,329	\$ 4,188

Cherry Hill Water Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Deferred State Income Tax (Sch. 1.13 CH)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(933)	-	-	-	-	-	-	(933)
6	General Expenses	(3,918)	-	-	-	-	-	-	(3,918)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(89)	-	-	-	-	-	-	(89)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(4,940)	-	-	-	-	-	-	(4,940)
17	State Income Tax	(15)	-	-	-	-	-	-	(15)
18	Federal Income Tax	767	-	-	-	-	-	-	767
19	Deferred Taxes and ITCs Net	-	(94)	-	-	-	-	-	(94)
20	Total Operating Expenses	(4,188)	(94)	-	-	-	-	-	(4,282)
21	NET OPERATING INCOME	\$ 4,188	\$ 94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,282

Cherry Hill Water Company
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 7.4 CH)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 189,927	\$ -	\$ 189,927
2	Accumulated Depreciation	(10,386)	-	(10,386)
3	-	-	-	-
4	Net Plant	179,541	-	179,541
5	Additions to Rate Base			
6	Water Service Corporation	8,549	-	8,549
7	Cash Working Capital	9,225	(1,608)	7,617
8	Deferred Tank Painting	-	6,929	6,929
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(3,299)	-	(3,299)
18	Accumulated Deferred Income Taxes	(9,179)	-	(9,179)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 184,837</u>	<u>\$ 5,321</u>	<u>\$ 190,158</u>

Cherry Hill Water Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Sch. 6.7 CH)	Tank Painting (Sch. 2.2 CH)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(1,608)	-	-	-	-	-	-	(1,608)
8	Deferred Tank Painting	-	6,929	-	-	-	-	-	6,929
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,608)	\$ 6,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,321

Cherry Hill Water Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 190,158 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	8,538
4	Company Interest Expense	<u>7,293</u> (3)
5	Increase (Decrease) in Interest Expense	<u>1,245</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	\$ <u>(23)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	\$ <u>(415)</u>

(1) Source: ICC Staff Ex. 7.0, Schedule 7.3 CH, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Cherry Hill Water Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.1100%	<u>0.001100</u>	
3	State Taxable Income		0.998900	1.000000
4	State Income Tax	1.8763%	<u>0.018742</u>	<u>0.018763</u>
5	Federal Taxable Income		0.980158	0.981237
6	Federal Income Tax	34.0000%	<u>0.333254</u>	<u>0.333621</u>
7	Operating Income		<u>0.646904</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.545824</u>	<u>1.544125</u>

Cherry Hill Water Company
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 2,863	SML-Exhibit No. 1
2	Pro forma health insurance expense per Company	<u>4,533</u>	Company workpaper e
3	Staff Proposed Adjustment	<u><u>\$ (1,670)</u></u>	Line 1 - line 2

Cherry Hill Water Company
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,342	Note 1
2	Rate case expense per Company	<u>1,575</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (233)</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 4,162	SML-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u><u>\$ 6,712</u></u>	
	5-year amortization period	<u><u>\$ 1,342</u></u>	

Cherry Hill Water Company
Adjustment to Remove Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Maintenance Expense adjustment per Staff	\$ -	Company rebuttal testimony
2	Maintenance Expense adjustment per Company	<u>933</u>	Company Schedule B
3	Staff Proposed Adjustment	<u><u>\$ (933)</u></u>	Line 1 - line 2
4	General Expense adjustment per Staff	\$ -	Company rebuttal testimony
5	General Expense adjustment per Company	<u>1,118</u>	Company workpaper c
6	Staff Proposed Adjustment	<u><u>\$ (1,118)</u></u>	Line 4 - line 5

[illegible]

Northern Hills Water & Sewer Company-Sewer Operations
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 7.5 NH-S)	Add-On Taxes (Sch. 1.7 NH-S)	Non-Health Insurance (Sch. 1.8 NH-S)	Income Taxes (Sch. 1.9 NH-S)	Health Insurance (Sch. 7.7 NH-S)	Rate Case Expense (Sch. 7.8 NH-S)	New IEPA Fee (Sch. 7.9 NH-S)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(170)	-	(728)	(218)	-	(1,116)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(47)	-	-	-	-	1,500	1,453
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(47)	(170)	-	(728)	(218)	1,500	337
17	State Income Tax	8	1	3	(279)	14	4	(28)	(277)
18	Federal Income Tax	148	16	57	(1,247)	243	73	(500)	(1,210)
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	156	(30)	(110)	(1,526)	(471)	(141)	972	(1,150)
21	NET OPERATING INCOME	\$ (156)	\$ 30	\$ 110	\$ 1,526	\$ 471	\$ 141	\$ (972)	\$ 1,150

Northern Hills Water & Sewer Company-Sewer Operations
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 7.4 NH-S)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 452,561	\$ -	\$ 452,561
2	Accumulated Depreciation	(168,418)	-	(168,418)
3	-	-	-	-
4	Net Plant	284,143	-	284,143
5	Additions to Rate Base			
6	Water Service Corporation	5,403	-	5,403
7	Cash Working Capital	5,868	(148)	5,720
8	Plant Acquisition Adjustment	12,698	(12,698)	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(214,359)	-	(214,359)
18	Accumulated Deferred Income Taxes	(12,670)	(45)	(12,715)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 81,083</u>	<u>\$ (12,891)</u>	<u>\$ 68,192</u>

Northern Hills Water & Sewer Company-Sewer Operations
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Accum. Deferred (Sch. 1.12 NH-S)	Cash Working Capital (Sch. 6.7 NH-S)	Acquisition Adjustment (Sch. 2.2 NH-S)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(148)	-	-	-	-	-	(148)
8	Plant Acquisition Adjustment	-	-	(12,698)	-	-	-	-	(12,698)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	(45)	-	-	-	-	-	-	(45)
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (45)	\$ (148)	\$ (12,698)	\$ -	\$ -	\$ -	\$ -	\$ (12,891)

Northern Hills Water & Sewer Company-Sewer Operations
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 68,192 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	3,062
4	Company Interest Expense	<u>3,507</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(445)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	<u>\$ 8</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u><u>\$ 148</u></u>

(1) Source: ICC Staff Ex. 7.0, Schedule 7.3 NH-S, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Northern Hills Water & Sewer Company-Sewer Operations
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.2500%	<u>0.002500</u>	
3	State Taxable Income		0.997500	1.000000
4	State Income Tax	1.8763%	<u>0.018716</u>	<u>0.018763</u>
5	Federal Taxable Income		0.978784	0.981237
6	Federal Income Tax	34.0000%	<u>0.332787</u>	<u>0.333621</u>
7	Operating Income		<u>0.645997</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.547995</u>	<u>1.544125</u>

Northern Hills Water & Sewer Company-Sewer Operations
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 1,253	SML-Exhibit No. 1
2	Pro forma health insurance expense per Company	<u>1,981</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (728)</u></u>	Line 1 - line 2

Northern Hills Water & Sewer Company-Sewer Operations
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 709	Note 1
2	Rate case expense per Company	<u>927</u>	Company workpaper c
3	Staff Proposed Adjustment	<u>\$ (218)</u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 4,264	SML-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u>\$ 6,814</u>	
	5-year amortization period	<u>\$ 1,363</u>	
	Sewer (52%)	<u>\$ 709</u>	Same Pro Rata Percent Used by Company

Northern Hills Water & Sewer Company-Sewer Operations
Adjustment for New IEPA Fee
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Adjustment to Taxes Other Than Income per Staff	\$ 1,500	Company response to DLH-9.01
2	Adjustment to Taxes Other Than Income per Company	-	
3	Staff Proposed Adjustment	<u>\$ 1,500</u>	Line 1 - line 2

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Sch. 7.2 NH-W)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 41,010	\$ -	\$ 41,010	\$ 5,325	\$ (186)	\$ 46,149	\$ (909)	\$ 45,240
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	41,010	-	41,010	5,325	(186)	46,149	(909)	45,240
4	Uncollectible Accounts	102	-	102	13	-	115	(2)	113
5	Maintenance Expenses	15,044	-	15,044	-	-	15,044	-	15,044
6	General Expenses	8,500	(1,104)	7,396	-	-	7,396	-	7,396
7	Depreciation	8,778	-	8,778	-	-	8,778	-	8,778
8	Amortization of CIAC	(3,262)	-	(3,262)	-	-	(3,262)	-	(3,262)
9	Taxes Other Than Income	2,228	(42)	2,186	16	(16)	2,186	-	2,186
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	31,390	(1,146)	30,244	29	(16)	30,257	(2)	30,255
16	Before Income Taxes								
17	State Income Tax	162	(63)	99	265	(169)	195	(17)	178
18	Federal Income Tax	(6)	1,752	1,746	1,711	(1)	3,456	(303)	3,153
19	Deferred Taxes	1,194	-	1,194	-	-	1,194	-	1,194
20	Total Operating Expenses	32,740	543	33,283	2,005	(186)	35,102	(322)	34,780
21	NET OPERATING INCOME	\$ 8,270	\$ (543)	\$ 7,727	\$ 3,320	\$ -	\$ 11,047	\$ (587)	\$ 10,460
22	Staff Rate Base (ICC Staff Exhibit 7.0, Schedule 7.3 NH-W, Column (d))								\$ 123,207
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 4,230
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								10.31%

Northern Hills Water & Sewer Company-Water Operations
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 7.5 NH-W)	Add-On Taxes (Sch. 1.7 NH-W)	Non-Health Insurance (Sch. 1.8 NH-W)	Income Taxes (Sch. 1.9 NH-W)	Health Insurance (Sch. 7.7 NH-W)	Rate Case Expense (Sch. 7.8 NH-W)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(156)	-	(675)	(273)	-	(1,104)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(42)	-	-	-	-	-	(42)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(42)	(156)	-	(675)	(273)	-	(1,146)
17	State Income Tax	9	1	3	(94)	13	5	-	(63)
18	Federal Income Tax	156	14	52	1,214	225	91	-	1,752
19	Deferred Taxes	-	-	-	-	-	-	-	-
20	Total Operating Expenses	165	(27)	(101)	1,120	(437)	(177)	-	543
21	NET OPERATING INCOME	\$ (165)	\$ 27	\$ 101	\$ (1,120)	\$ 437	\$ 177	\$ -	\$ (543)

Northern Hills Water & Sewer Company-Water Operations

Rate Base

For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 7.4 NH-W)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 383,429	\$ -	\$ 383,429
2	Accumulated Depreciation	(115,910)	-	(115,910)
3	-	-	-	-
4	Net Plant	267,519	-	267,519
5	Additions to Rate Base			
6	Water Service Corporation	4,997	-	4,997
7	Cash Working Capital	3,222	(319)	2,903
8	Plant Acquisition Adjustment	15,140	(15,140)	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(140,454)	-	(140,454)
18	Accumulated Deferred Income Taxes	(11,717)	(41)	(11,758)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 138,707</u>	<u>\$ (15,500)</u>	<u>\$ 123,207</u>

Northern Hills Water & Sewer Company-Water Operations

Adjustments to Rate Base

For the Test Year Ending December 31, 2002

Line No.	Description	Accum. Deferred (Sch. 1.12 NH-W)	Cash Working Capital (Sch. 6.7 NH-W)	Acquisition Adjustment (Sch. 2.2 NH-W)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(319)	-	-	-	-	-	(319)
8	Plant Acquisition Adjustment	-	-	(15,140)	-	-	-	-	(15,140)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	(41)	-	-	-	-	-	-	(41)
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (41)	\$ (319)	\$ (15,140)	\$ -	\$ -	\$ -	\$ -	\$ (15,500)

Northern Hills Water & Sewer Company-Water Operations
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Gross Plant in Service	\$ 123,207 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	5,532
4	Company Interest Expense	<u>5,999</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(467)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	\$ <u>9</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ 156</u>

(1) Source: ICC Staff Ex. 7.0, Schedule 7.3 NH-W, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Northern Hills Water & Sewer Company-Water Operations
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.2500%	<u>0.002500</u>	
3	State Taxable Income		0.997500	1.000000
4	State Income Tax	1.8763%	<u>0.018716</u>	<u>0.018763</u>
5	Federal Taxable Income		0.978784	0.981237
6	Federal Income Tax	34.0000%	<u>0.332787</u>	<u>0.333621</u>
7	Operating Income		<u>0.645997</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.547995</u>	<u>1.544125</u>

Northern Hills Water & Sewer Company-Water Operations
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 1,157	Note 1
2	Pro forma health insurance expense per Company	<u>1,832</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (675)</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	2002 Northern Hills-Water health insurance expense	\$ 885	Company workpaper d
	Pro forma increase per Staff	<u>30.68%</u>	SML-Exhibit No. 1
	Pro forma health insurance expense per Staff	<u><u>\$ 1,157</u></u>	

Northern Hills Water & Sewer Company-Water Operations
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 654	Note 1
2	Rate case expense per Company	<u>927</u>	Company workpaper c
3	Staff Proposed Adjustment	<u><u>\$ (273)</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Company rebuttal	\$ 4,264	SML-Exhibit No. 2
	Legal expenses estimate	<u>2,550</u>	Provided by Company
	Total Rate case expense per Staff	<u><u>\$ 6,814</u></u>	
	5-year amortization period	<u><u>\$ 1,363</u></u>	
	Water (48%)	<u><u>\$ 654</u></u>	Same Pro Rata Percent Used by Company